

**CITY OF LAKE FOREST PARK**  
**King County, Washington**  
**January 1, 1992 Through December 31, 1992**

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**Schedule Of Findings**

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1. The City Should Prepare Complete, Accurate, And Timely Financial Reports

The City of Lake Forest Park's 1992 annual financial reports were not completed and ready for audit until January 1994. In addition, the financial statements contained numerous reporting errors, which were substantially corrected by our examiners for the purposes of this audit report.

However, some significant errors remain unexplained. One is that city management found it necessary to increase reported Current Expense Fund expenditures, thereby reducing ending fund balance, by \$23,257. This was necessary to agree total ending fund balances to total cash and investments held by the city at December 31, 1992. Additionally, at the completion of the audit, cash held in the claims and payroll clearing funds as of December 31, 1992, still had not been reconciled to total warrants outstanding.

Further, the final financial reports were incomplete in that the following supporting schedules were not prepared:

Schedule 07 ) Schedule of Warrant Activity  
Schedule 08 ) Schedule of Real and Personal Property Taxes  
Schedule 11 ) Operation of Cash

These supporting schedules are necessary to demonstrate the integrity of city records, to provide management with financial information, and facilitate the audit.

RCW 43.09.230 provides that every taxing district and political subdivision shall submit financial reports covering the full period of each fiscal year. This same statute requires that these financial reports contain accurate statements of all collections made, or receipts received, all expenditures for every purpose, and such other information as may be required by the State Auditor.

RCW 43.09.230 further requires that such reports be prepared, certified, and filed with the Division of Municipal Corporations within one hundred fifty days after the close of each fiscal year.

In addition to the late annual financial report, the city did not prepare the annual Street Cost Report for 1992. This report is required by RCW 35.21.260 to be submitted to the State Department of Transportation on or before March 31 of the following year.

The city's inability to prepare complete, accurate, and timely financial reports has been chronic for the past several years. The city did not prepare any financial reports for 1988, 1989, and 1990. The city's annual financial report for 1991 was not submitted until January 1993 and contained substantial errors and omissions, which were again corrected

by our examiners. This condition was brought to the attention of city management, city council, and the public in each of our prior audit reports as an audit finding. To date, city management and the council have not implemented the corrective action necessary to ensure compliance with state law.

Without timely and accurate financial reporting, city officials have not fulfilled their statutory and fiduciary responsibilities. Additionally, poor recordkeeping and inaccurate, late financial reports significantly reduce audit efficiency causing delay in issuance of the audit report and increased audit costs.

We recommend city management and city council take the steps to ensure the complete, accurate, and timely preparation of the city's annual reports.

2. The City Should Establish An Auditable Payroll System

During our examination, we noted significant deficiencies in the city's payroll system. These deficiencies included, but were not limited to, the following:

- a. The lack of a complete payroll warrant register to account for all warrants issued, voided, or cancelled.
- b. The lack of expenditure ledgers to identify and document reported payroll costs.
- c. The lack of reports to enable us to trace payroll warrants issued to the payroll expenditure accounts.
- d. A negative cash balance in the payroll clearing fund.

As a result, we were unable to completely audit payroll transactions or verify that payroll costs claimed were complete and fairly presented on the city's financial statements at year end.

Good internal control over transactions requires that records be complete and verifiable. Without such controls, there are no means of determining if city resources are being used appropriately, or that financial reports are accurate. The lack of controls also increases the risk of errors and irregularities.

The apparent cause of these problems is that, during the audit period, the city switched from a manual payroll system to a computerized system but failed to run parallel systems during the transition period to ensure data was being processed correctly. Additionally, city management did not require the appropriate reports be generated by the new system on a routine basis, nor were complete records of payroll transactions maintained.

We recommend the city institute procedures to ensure an appropriate auditable payroll system, which is reconciled each month and provides for the timely discovery of potential errors and irregularities.